TITLE: **High risks in carbon gamble**

AUTHOR: **Dr Richard Denniss**

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It seems owners of old assets will get the certainty they want while investors in renewable energy will ride a rollercoaster.

The only thing that big business in Australia wants more than certainty is the certainty that they will get their own way. When they aren't certain about that, it's amazing how much uncertainty they are willing to tolerate. It seems it's better to have a chance of a win than be certain of a loss.

Take the carbon price. It is interesting how silent both the Government and the big polluters are about one of the main strengths of a carbon tax, namely, it delivers price certainty. Emissions trading schemes rely on uncertain market forces that generate uncertain carbon prices. A carbon tax, on the other hand, provides businesses and consumers with certainty about the price of pollution. In short, you can be certain about the price of pollution or the quantity of pollution, but you can't be certain about both. So if the big polluters are so determined to have certainty why do most of them prefer the volatile carbon prices we have seen in the European emissions trading scheme to the price certainty offered by a carbon tax?

It's simple really. They would rather pay the uncertain, but probably low, carbon price that comes with an emissions trading scheme than the certain, but probably higher, cost associated with a carbon tax. They only really want certainty when they can certainly get what they want.

The problem is that what is good for our big polluters is bad for firms keen to invest in lower emissions technologies who, not surprisingly, have a thing for certainty as well.

Consider the following example. Imagine you wanted to build a wind or solar power station. You know that your upfront costs will be higher than the coal-fired power stations you will be competing against, most of which were built by state governments keen to win votes rather than private companies keen to make profits.

You also know that your running costs will be much lower than your competitors once you are up and running because you won't have to either buy lots of coal or pay the new carbon price.

You are pretty certain about the cost of building your renewable power plant, you have a pretty good idea about the likely cost of electricity and you have a good sense of what your competitors will be paying for their coal. But before you can decide whether to go ahead with your investment in renewables you are going to want a high degree of certainty about the carbon price.

The fact that renewable energy providers don't have to pay for any carbon pollution is their one big competitive advantage over coal-fired power stations. But if you don't know whether that carbon price will be high or low you won't know if you are going to be competitive or not.

Those who wish to invest in renewable energy value certainty even more highly than the current owners of the power stations for the simple reason that without a high degree of certainty about the future carbon price they will not build new assets. The owners of coal-fired power stations, on the other hand, only require certainty so that they can more accurately predict the size of the profits they will earn on the existing power stations that were built by others.

The real question isn't whether the Government should provide certainty to business or not, but which businesses, should that certainty be offered to. At the moment it looks like the owners of old assets will get the certainty they want while the potential investors in renewable energy will need to ride the carbon price roller coaster.

But the carbon price isn't the only uncertainty in town.

Interest rates, wage rates, world demand for commodities and, most importantly now, exchange rates all exhibit a high degree of volatility. The idea that the mineral extraction or refining industries can't operate without certainty is about as plausible as a boxer saying he won't fight if there is a chance that he will get punched.

The whole point of capitalism is that investors take risks to earn rewards. We tell mums and dads who saw one-third of their superannuation disappear during the global financial crisis that they have to accept that there is a trade-off between risk and return. But what the big polluters are trying to do in Australia is to push all of the cost of climate change on to others while hanging on to the returns for themselves.

There is a case for providing some compensation to some businesses that will soon be paying a carbon price and whose international competitors will not. Not even the Greens disagree with this view.

The real questions relate to how much compensation we should give to which industries and how far into the future we should provide such certainty. Imagine if we gave Australia's big polluters long-term certainty about the billions of dollars of compensation they will receive. It may very well be that in the future other countries introduce a carbon price.

Could we then say that Australia's compensation was money well spent, or will we wish we dedicated those resources to encouraging the uptake or renewables?

We have no idea what carbon price other countries will impose in future, but we can be certain of one thing: every billion dollars we give away to the big polluters is money we can't invest in alternative energy supply, support for low-income earners or investment in health and education.

In his speech on Wednesday, Climate Change Minister Greg Combet assured the public that at least half of the more than $10billion a year raised from the carbon price would be used to compensate households for the likely impact of increases in the cost of living.

The billion dollar question is: Who will get the remaining $5 billion a year?

Dr Richard Denniss is Executive Director of the Australia Institute, a Canberra-based think tank www.tai.org.au